



BUDGET COMMITTEE



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Opening Statement from Senator Judd Gregg (partial/unofficial transcript)

Senate Budget Committee Hearing on the President's Fiscal Year 2008 Budget Proposals on Tax Compliance

**Witness: The Honorable Mark W. Everson, Commissioner,
Internal Revenue Service, Department of the Treasury**

It's nice to have the Commissioner here, who's done a very good job, I believe, and I thank him for his excellent work. And obviously this has been an issue, this issue of tax gap, has been a major issue for the Chairman for many years, and I believe he's managed through his perseverance and energy to finally get us fairly well focused on it, and I'll be interested in the Commissioner's thoughts on what the real numbers are that we can recover of this number, that we know is the tax gap, and how much we've already recovered. The Commissioner's testimony may be that of that 2001 number, a significant effort has been made, and there is significant recovery already occurring, and so that number has probably been reduced. This is legitimate and what we need is a number that's reasonable, so that we can figure it out, and then give you the resources to accomplish that.

On the second issue, though, of what the tax cuts have done, and what they haven't done, I must, whenever the Chairman puts his charts up, respond kindly to him that I think he's living in the past, and maybe not looking at the results that are current. You can obviously make a fairly effective argument that in the early 2000 period revenues dropped precipitously and I would argue they're dropped precipitously primarily because we went into a recession which was a function of two major events: the bursting of the Internet bubble, which was the biggest bubble in the history of the world -- bigger than the South Seas bubble, bigger than the tulip bubble, which was a big bubble actually. But a bubble of disproportionate effect on our economy when it did bust. And then secondly the attacks of 9/11 which threw us into disarray as a nation -- emotionally, psychologically, culturally, and economically. We've come out of that though -- we've come out of that primarily because we've put in place an economic program which has energized the economy.

We've created 7.4 million jobs. We've had, I think, 41 months of continuous recovery and growth. We see revenues jumping dramatically in the last three years and 9% just in the last quarter. We are now generating revenues, and this is the most significant point, which actually exceed the historic average of revenues to the federal government -- we're up around 18.4% of Gross National Product coming into the federal government, historically we've been at 18.2% and we're headed towards 18.6%. Which are big numbers -- those are big numbers -- between .2 and .4. So we are generating significant revenues at the federal level.

And it's also important, I think, to appreciate the fact that the income tax has become even more progressive under the President's proposals, under the Republican proposals that were passed in the early 2000's under the leadership of Senator Grassley. We now have more progressive income tax law, where the top 20% of income earners in our society, are paying almost 85% of the burden of the income tax whereas under President Clinton they were paying about 81% of that burden. And the lowest 40% of income earners, they don't pay income taxes -- they're getting more back under the Earned Income Tax Credit, almost by a factor of 2 than they received back under President Clinton's period.

So we now have a tax law that is generating more revenues to the federal government than historically it has generated, and is more progressive -- higher income people are paying more and I congratulate Senator Grassley for having orchestrating that. I think the success story is significant and we should acknowledge that.

But there still remains this issue, which the Chairman and I totally agree on which is that in the out years we do not have a government we can sustain because of the fact that we are facing a baby boom generating that is going to double the size of the retired population, which increases exponentially the cost of health care benefits and retirement benefits and that our children won't be able to afford our generation when it's retired. And so we should be looking for places where we can more efficiently raise revenues, and I guess my questions to you will be along the lines of, after you explain to us what really is the tax gap that we can still recover -- what is that number -- is there a better way to raise revenue independent of the tax gap? Is there a better way we can do this? Should we go back to an '86-type of tax reform exercise where we basically consolidate and reduce the number of deductions, actually reduce rates but clean up the underbrush of deductions. And I think you can be very helpful to us not only in explaining what the real number is that we could score and generally use -- the hard number for recovering the tax gap over the next five years -- but if you have ideas as to how we can actually have a better system of taxation.

I thank you.

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